To aid recovery, raise corporate income tax rate

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Body

It was welcome news that the 2022 federal budget included two new taxes on banks and life insurance companies.

An additional, one-time tax of 15 per cent will be applied to bank and insurance company profits over $1 billion that were collected during the pandemic. Going forward, a 1.5 per cent surtax will be added to the existing corporate income tax on all taxable income over $100 million for those companies. However, even with these measures, banks and insurance companies - as well as all the other large corporations in Canada - continue to pay the lowest tax rates since the Second World War. Canadians cannot afford to maintain this situation.

The government spent unprecedented amounts of money to support Canadians during the height of the pandemic. We showed that in times of crisis, we can rally together and do what has to be done.

Now climate change requires robust public investment over at least the next 10 years. In order to fund these spending demands, Canada needs substantial, long-term revenue sources. Failure to make the necessary investments or to secure suitable revenue will bring a much steeper social, environmental and economic price.

Maintaining the general corporate income tax rate at a historical low in this landscape is irresponsible.

Since 1986, when the corporate income tax rate was 38 per cent, both Liberal and Conservative governments have been cutting corporate taxes, telling us that more "tax competitiveness" would allow Canadian markets to attract and allocate more capital towards productive investment and job creation. By 2000, the rate had been cut to 29 per cent.

Former Liberal finance minister Paul Martin then reduced it to 22 per cent, saying Canada needs "a tax system that is internationally competitive." In 2008, former Conservative finance minister Jim Flaherty cut it down to 15 per cent, saying that would "make our competitive business taxes a powerful brand." The current Liberal government has maintained that ultralow rate.

But the promised boosts to productive investment and job creation have not happened.

In fact, investment in productive capacity has fallen every decade since the rate-cutting experiment began. In the 1990s, businesses put about 37 per cent of gross corporate profit back into productive assets. In the 2000s, that fell to 30 per cent. By the 2010s, it was just 25 per cent. In 2021, a year of record profits, only 19 per cent was invested in productive capacity.

As for jobs, through the 2000s and early 2010s, more jobs became temporary for working-age people. From 2000 through 2019, the median wage for permanent employees increased annually by just seven-tenths of a per cent,

after accounting for inflation. Contrast that with corporate dividends, which averaged annual price-adjusted increases of more than six per cent.

Instead of investment in socially beneficial production, the cuts to corporate income tax contributed to concentrated personal and corporate wealth, worsening inequality. Cuts to corporate tax rates also reduced federal revenues. Combined with a multi-decade focus on balanced budgets, this led to lower spending. The result was underinvestment in sectors that are universally beneficial, such as health care and long-term care.

Instead of ensuring we had a more fair society, governments aided and abetted the development of an economy that serves corporate bottom lines over community needs.

Now, after two years of a pandemic and with even greater clarity on the urgent need for aggressive climate action, we know that the government must invest in a clean and care-based economy. This is essential to secure a shared, prosperous future.

Renowned economist Mariana Mazzucato has demonstrated that governments are key participants in creating new, transformative economies, with businesses among the beneficiaries. Government spending to transform our economy will produce a "crowding in" of businesses competing to provide the goods and services needed. This investment will also greatly improve business confidence - leading to more, not less, investment by the private sector.

The money that governments invest will inevitably "trickle up" to wealthy asset owners. Increasing the corporate income tax rate is one of the easiest ways to keep that money circulating and benefiting all of us.

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